

Kossuth Regional Health Center

KOSSUTH REGIONAL HEALTH CENTER

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KOSSUTH REGIONAL HEALTH CENTER
BOARD OF TRUSTEES AND HEALTH SYSTEM OFFICIALS
JUNE 30, 2006 AND 2005

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jack Munch	Chair	December 31, 2008
Thomas Geelan	Treasurer	December 31, 2008
Conley Nelson	Secretary	December 31, 2006
Eileen Bormann	Member	December 31, 2006
John Cowin	Member	December 31, 2010

Health System Officials

Scott Curtis	Administrator
Daniel Myers	Controller



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Kossuth Regional Health Center
Algona, Iowa

We have audited the accompanying financial statements of **Kossuth Regional Health Center** for the year ended June 30, 2006, and its **discretely presented component unit** for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of **Kossuth Regional Health Center** for the year ended June 30, 2005 and its **discretely presented component unit** for the year ended December 31, 2004, were audited by other auditors whose report dated August 11, 2005, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of **Kossuth Regional Health Center** and the 2005 financial statements for its **discretely presented component unit**, as of June 30, 2006 and December 31, 2005, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As indicated in the Health Center's Summary of Significant Accounting Policies in Note 1 to the financial statements, management has elected to report interest expense as an operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets. *Governmental Auditing Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* does not establish a definition of operating revenues and expenses versus nonoperating revenues and expenses. Rather, governments are required to establish their own policy defining operating revenues and expenses and apply the policy consistently. The common practice for governmental health care entities is to include interest expense in nonoperating revenues and expenses.

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In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2006, on our consideration of **Kossuth Regional Health Center**, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 12 and the Budgetary Comparison Schedules on page 33 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Minneapolis, Minnesota
August 10, 2006

KOSSUTH REGIONAL HEALTH CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED JUNE 30, 2006 AND 2005

This section of the Kossuth Regional Health Center (the Health Center) annual audited report represents management's discussion and analysis of the Health Center's financial performance during the fiscal year ended June 30, 2006 and 2005 and will focus on the financial performance as a whole. Please read it in conjunction with the audited financial report.

Using This Annual Report

The June 30, 2006 and 2005 financial report includes the following audited financial statements:

- Balance Sheets
- Statements of Revenue, Expenses, and Changes in Net Assets
- Statements of Cash Flow
- Notes to Financial Statements
- Required Supplementary Information
- Other Supplementary Information

Operational Highlights

- One of the major focuses over the past year has been on construction and renovation. We continue to work with the architectural firm on the Master Facility Plan implementation. During the course of this past year, we implemented changes in plans to relocate the admissions office, main waiting room and lobby, and move Administration to the second floor. In addition, we proceeded with completing plans to add space to the Algona Clinic, and built a new Bancroft Clinic in cooperation with the City of Bancroft. We also used the plans from the architect to begin the remodeling of two patient rooms, with significant changes to the bathrooms in particular, on the 3rd floor inpatient unit. It is our goal to use the rooms for some period of time, to determine their workability prior to remodeling the remainder of the patient rooms and addition of new rooms, as outlined in the Master Facility Plan.
- The planning for an addition to the Algona Clinic also has been a major initiative. It is anticipated this project will get started in the Fall of 2006. The Health Center will lease this space from the independent group of individuals that will own the building. When complete, this space will adequately support the additional family practice, obstetrician/gynecologist, and specialist physicians that are currently practicing without space dedicated for their use.
- The construction of Bancroft Clinic is nearing completion and is expected to be available for occupancy in September of 2006. This is a collaborative project of the City of Bancroft, the Bancroft Community Foundation and The Health Center. Included in this effort has been a fund raising effort that has raised over \$300,000 to go towards the project.
- Quality and patient safety continue to be a major area of focus and further development for us. One activity that we have continued to stay closely involved with is the Mercy Health Network Grant activities for Quality and Patient Safety. Activities are in process for meeting significant Patient Safety goals, as well as benchmarking quality data throughout the Network. In addition, the Health Center participated in the NQF 30 Survey of Safe Practices Survey. The Health Center also participates in the State – wide Critical Access Hospital Patient Quality Data Reporting and Benchmarking project, beginning with July, 2005 data. A patient safety Medication Reconciliation process was implemented in January, 2006. We have also been selected to serve as a pilot project for the IFMC's new Culture of Patient Safety project, which began in February, 2006.

KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS – PAGE 2
YEARS ENDED JUNE 30, 2006 AND 2005

- In addition, the Health Center was named as a Mentor Hospital for the 100,000 Lives Campaign, of which we have implemented several of the projects.
- The Health Center received some significant grants during this past fiscal year, which would not have been available without CAH status. In January, 2006, we received a grant from the IDPH to assist with the purchase and installation of a pneumatic tube carrier system to transport medication orders to the hospital pharmacy, and transmit medications to the 3rd floor nursing unit. This would not have been possible without CAH status, and will make a tremendous impact on the timeliness and quality of the medication system here in the hospital. It also allows an interface with the ER, Lab, Surgery, and Clinics.

Staff Highlights

- In August of 2005, we added a new family practice physician, Dr. Michael Lampe to our staff. Since his arrival, he has developed a thriving practice and has been a welcome addition to the team.
- We have also been successful in the recruitment of an OB/GYN physician to our practice. Dr. Ron Moeller will rotate c-section call coverage with our general surgeon, and began his regular practice in Algona in August, 2006.
- One of our physicians, Dr. Richards, was selected to accompany a team of health personnel to New Orleans following Hurricane Katrina. He had a heart -warming experience working in a medical tent there, and had many good stories to share with our staff. In addition, his experience there has assisted us as we evaluate our disaster preparedness plans.
- One of our Physician Assistants, Mark Davis, was called to active duty in Iraq. Mark was involved in serving in a medical capacity there for 4 months, and also had many stories to share from his experiences there.
- We also hired a number of interns (college students of staff families) to assist with special projects over the summer months, in cooperation with the Kossuth County Economic Development Corporation. This was the second year for this program, and again afforded us the opportunity to work with a bright group of college students, and get some special projects accomplished. This has been a rewarding

Financial Highlights

- The Health Center's total assets increased by \$525,776 or 3.70% in 2006 while they increased by \$2,002,661 or 16.43% in 2005.
- The Health Center's net assets increased in each of the last two years with a \$949,156 or 8.52% increase in 2006 and a \$1,044,529 or 10.35% increase in 2004.
- The Health Center reported positive operating income of \$812,997 in 2006 and a gain of \$892,367 in 2005.

KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS – PAGE 3
YEARS ENDED JUNE 30, 2006 AND 2005

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets

These financial statements report information about the Health Center using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of the Health Center's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Health Center creditors (liabilities). Revenue and expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of the Health Center's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of the Health Center that determines the Health Center's solvency. It is divided into cash flows (in or out) from operating, noncapital financing, capital and related financing, and investing activities.

Required supplementary information further explains and supports the financial statements with a comparison of the Hospital's budget.

Also supporting, supplementary information to the above statements is provided in:

- Schedules of Net Patient Service Revenues
- Schedules of Adjustments to Net Patient Service Revenue and Other Revenue
- Schedule of Operating Expenses
- Schedules of Aged Analysis of Accounts Receivable from Patients and Allowance for Doubtful Accounts
- Schedule of Inventories and Prepaid Expenses
- Comparative Statistics

Financial Analysis of the Health Center

The information from the Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows have been summarized in the following tables. Tables 1 and 2 report the net assets of the Health Center and the changes in them. Increases or decreases in net assets are one indicator of whether or not the Health Center's financial health is improving. Other nonfinancial factors can also have an effect on the Health Center's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payors, as well as changes in the economic environment of Kossuth county and the surrounding area.

KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS – PAGE 4
YEARS ENDED JUNE 30, 2006 AND 2005

Financial Analysis of the Health Center (Continued)

Table 1: Assets, Liabilities and Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets:			
Current Assets	\$ 6,546,320	\$ 5,951,423	\$ 3,923,102
Assets limited as to use or restricted	2,749,454	2,813,186	2,425,708
Capital Assets, Net	<u>5,422,908</u>	<u>5,428,297</u>	<u>5,841,435</u>
Total Assets	<u>\$ 14,718,682</u>	<u>\$ 14,192,906</u>	<u>\$ 12,190,245</u>
Liabilities:			
Total Current Liabilities	\$ 2,183,695	\$ 2,493,259	\$ 1,426,757
Long-Term Debt (Less Current Maturities)	<u>451,496</u>	<u>565,312</u>	<u>673,682</u>
Total Liabilities	2,635,191	3,058,571	2,100,439
Total Net Assets	<u>12,083,491</u>	<u>11,134,335</u>	<u>10,089,806</u>
Total Liabilities and Net Assets	<u>\$ 14,718,682</u>	<u>\$ 14,192,906</u>	<u>\$ 12,190,245</u>

Asset categories changing significantly during 2006 and 2005 included Cash and Cash Equivalents, which decreased by \$902,606 in 2006 as we realized the need to move funds from the Cash and Cash Equivalent accounts into Investment accounts that utilize certificate of deposits. This allowed us to take advantage of improving interest rates, thus earning a greater return on our funds. Therefore, Assets Limited as to Use or Restricted also saw an increase of \$824,128 in 2006. Assets Limited as to Use or Restricted also decreased by \$63,732 in 2006 as a result of funds disbursed as part of our commitment to the construction of the new Bancroft Medical Clinic building. Capital Assets were reduced by \$5,389 in 2006 and \$413,138 in 2005, which resulted from not having a significant capital project costs to offset allowances for depreciation during those years.

Current liabilities decreased by \$309,564 in 2006 after having increased by \$1,066,502 in 2005. The 2006 decrease is due primarily to a lower liability for Third Party Settlements as well as lower Accrued Expenses. In 2005 there was a large increase in liabilities on claims for the self-funded employee health insurance accounts. The Health Center also reduced the amount of long-term debt by \$158,371 in 2006.

The current ratio (current assets divided by current liabilities) for 2006 was 3.00 and 2005 was 2.39. This is a measure of liquidity, providing an indication of the Health Center's ability to pay current liabilities: a high ratio number is preferred.

KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS – PAGE 5
YEARS ENDED JUNE 30, 2006 AND 2005

Financial Analysis of the Health Center (Continued)

Table 2 summarizes information from the Statements of Revenues, Expenses, and Changes in Net Assets.

Table 2: Statement of Revenues, Expenses, and Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Revenues	\$ 18,218,190	\$ 16,050,326	\$ 13,662,690
Operating Expenses	<u>17,405,193</u>	<u>15,157,959</u>	<u>13,649,552</u>
Operating Income	812,997	892,367	13,138
Due To Affiliated Organizations	<u>(406,499)</u>	<u>(446,184)</u>	<u>(6,568)</u>
Adjusted Operating Income	406,498	446,183	6,570
Nonoperating Revenues and Expenses	<u>542,658</u>	<u>598,346</u>	<u>448,696</u>
Increases in Net Assets	949,156	1,044,529	455,266
Net Assets, Beginning of Year	<u>11,134,335</u>	<u>10,089,806</u>	<u>9,634,540</u>
Net Assets, End of Year	<u>\$ 12,083,491</u>	<u>\$ 11,134,335</u>	<u>\$ 10,089,806</u>

Net patient service revenue comprised 86.9% in 2006 and 91.7% in 2005 of the Health Center's total operating revenues. To arrive at net patient service revenue contractual adjustments have been made to gross patient revenue due to agreements with third party payors. Total operating revenues increased by \$2,167,864 or 13.5% in 2006 and increased by \$2,387,636 or 17.5% in 2005.

Total operating expenses increased \$2,247,234 or 14.8% in 2006 and increased \$1,508,407 or 11.1% in 2005. The operating expenses are broken down by department on the Schedule of Operating Expenses on pages 36 – 39 of the audited financial statements. In 2006 there was a significant increases seen in salaries and wages. All of these additional costs are due primarily the new services that were initiated during 2006 and the growth of services initiated in 2005. These included the Retail Pharmacy and the Occupational/Business Health Services. We also continued the annual wage market adjustments that are done in February each year. Much of the increased employee benefit costs is a result of the additional salaries and wages, but also from adjustments for employee insurance costs.

Supplies and Miscellaneous costs also increased significantly in 2006. The new Retail Pharmacy produced a large portion of the additional supply costs during 2006. Higher patient volumes in some areas also contributed to the increased costs. Total supplies and miscellaneous expenses increased by \$1,397,418 or 28.4% in 2006 while those costs increased by \$618,064 and 20.1% in 2005.

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MANAGEMENT'S DISCUSSION AND ANALYSIS – PAGE 6
YEARS ENDED JUNE 30, 2006 AND 2005

Table 3 below shows the contractual adjustments that were recognized.

Table 3: Net Patient Service Revenue and Contractual Adjustments

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total Patient Service Revenues	\$ 22,779,965	\$ 21,106,074	\$ 18,798,888
Contractual Adjustments and Provisions for Bad Debt	<u>6,956,014</u>	<u>6,395,612</u>	<u>5,765,692</u>
Net Patient Service Revenue	<u>\$ 15,823,951</u>	<u>\$ 14,710,462</u>	<u>\$ 13,033,196</u>
Contractual Adjustments as a Percent of Total Patient Revenue	<u>30.54%</u>	<u>30.30%</u>	<u>30.67%</u>

Contractual adjustments for Medicare patients accounts for the largest portion of the total amount at 59.1% in 2006 and 58.8% in 2005 of the total adjustments. Bad debt allowances contributed 6.7% in 2006 and 6.3% in 2005.

Table 4 summarizes other operating and nonoperating revenues received by the Health Center. Other operating and nonoperating revenue increased by \$1,057,590 in 2006 and increased by \$801,117 in 2005. The large increase in revenue for 2006 is attributable to the Retail Pharmacy as the revenue for this service is considered as other operating revenue.

Table 4: Other Operating and Non-Operating Revenues

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Community & Public Health Grants	\$ 432,394	\$ 365,030	\$ 315,369
Retail Pharmacy	1,650,001	688,824	-
Dietary Services	124,137	114,642	120,015
Investment Income	192,995	68,243	46,883
Tax Apportionments	298,761	299,683	297,234
Rent Income	98,263	106,180	99,501
Noncapital grants and Contributions	40,327	218,235	65,038
Gain on disposal of Equipment	492	1,070	30,374
Miscellaneous and Others	<u>99,527</u>	<u>76,303</u>	<u>103,776</u>
Total Other Revenues	<u>\$ 2,936,897</u>	<u>\$ 1,938,210</u>	<u>\$ 1,078,190</u>

It should be noted that tax apportionments have remained virtually unchanged during the three years of information shown on the table above. The Health Center has made efforts to not increase the property tax burden on county property owners for the support of the Health Center during many years.

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MANAGEMENT'S DISCUSSION AND ANALYSIS – PAGE 7
YEARS ENDED JUNE 30, 2006 AND 2005

Statistical Data

Table 5 shows the Health Center's statistical data. In comparison, there is a direct correlation between utilization changes and revenue changes. Total patient days and admissions decreases were seen in 2006 after they had increased in 2005. Patient days declined by 103 in 2006 which followed a increased of 201 in 2005, while admissions were decreased by 20 in 2006 and increased by 114 in 2005. During the same periods surgical procedures also decreased in 2006 to 1,197 after a total of 1,210 procedures during 2005. In 2006 we also saw increases in total outpatient, emergency room, clinic visits and community health visits.

Table 5: Statistical Data

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Patient Days			
Acute	1,940	2,080	1,641
Swing Bed	1,031	1,005	1,284
Newborn	225	214	173
Total	<u>3,196</u>	<u>3,299</u>	<u>3,098</u>
Admissions			
Acute	624	624	535
Swing Bed	123	144	143
Newborn	105	104	80
Total	<u>852</u>	<u>872</u>	<u>758</u>
Average Length of Stay, Acute	<u>3.11</u>	<u>3.33</u>	<u>3.07</u>
Beds – Acute and Swing Bed	<u>25</u>	<u>25</u>	<u>25</u>
Occupancy Percentage	<u>35.0%</u>	<u>36.2%</u>	<u>33.9%</u>
Surgical Procedures			
Inpatients	134	146	119
Outpatients	1,063	1,064	989
Total	<u>1,197</u>	<u>1,210</u>	<u>1,108</u>
Outpatients			
Total Outpatient Visits	25,426	24,898	24,689
Emergency Room Visits	2,735	2,630	2,577
Clinic Visits	43,245	40,364	38,438
Community Health Visits	10,915	9,906	10,124

KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS – PAGE 8
YEARS ENDED JUNE 30, 2006 AND 2005

Cash Flows

Kossuth Regional Health Center cash from all current sources totaled \$2,873,457 at the end of 2006 after a 2005 total of \$2,951,935. These totals are of key significance as they demonstrate the Health Center is generating cash from operating and nonoperating revenue sources that is sufficient to meet the operating and capital needs for the organization.

Capital Assets

At June 30, 2006, the Health Center had \$5,422,908 invested in capital assets net of accumulated depreciation. In 2006, the Health Center expended \$742,940 to address capital and facility needs.

Long-Term Debt

Table 6 shows a summary of the Health Center's long term debt outstanding.

Table 6: Long-Term Debt

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Promissory Note Payable	\$ 40,000	\$ 50,000	\$ 60,000
Hospital Revenue Note	525,311	623,682	716,892
Pharmacy Note	—	50,000	—
Total Long-Term Debt	<u>\$ 565,311</u>	<u>\$ 723,682</u>	<u>\$ 776,892</u>

The most significant amount on Table 6 is the Hospital Revenue Note. On March 1, 2000 the Health Center entered into an agreement with Iowa State Bank and other financial institutions within Kossuth County, for the issuance of a \$1,000,000 Hospital Revenue Note in order to renovate the Surgical Department. This note is payable over 10 years at an annual interest rate of 5.4%. This table shows the changes in the remaining amounts owed on that Note.

The Promissory Note is a 10 year 0% note from Humboldt County Rural Electric Cooperative which was also used for the Surgical Renovation project.

KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS – PAGE 9
YEARS ENDED JUNE 30, 2006 AND 2005

Economic Factors

Kossuth Regional Health Center continued to improve its financial position during the current year. However, the current condition of the economy continues to be a concern for the Health Center officials. Some of the realities that may potentially become challenges for the Health Center are as follows:

Health Care Policy: The decision to change to Critical Access Hospital (CAH) status has proven to be a good economic decision for the Health Center, but there are still concerns that we still have much to learn about the cost based reimbursement method that Medicare uses. At the same time, funding for Medicaid services remains uncertain from year to year as federal officials balance the budget by challenging state governments to address reimbursements for Medicaid programs. This is concerning as utilization of health care services by Medicaid eligible enrollees has continued to increase both at the state and local levels.

Health Care Insurance: One significant factor facing the employed workforce is the continued significant increase in health insurance premiums. As premiums continue to increase, employers will continue searching to identify lower cost alternatives. This may result in more employers choosing to no longer provide coverage to their employees or to shift greater responsibility for non-catastrophic care to the employee. Regardless of the reaction, there will certainly be an impact on the health care provider.

Workforce Shortage: There continues to be a concern regarding the ability to maintain a qualified workforce. This is particularly the case in a number of employee classifications including nursing and other technical positions. The Health Center will continue to be proactive in supporting the non-traditional nursing program available at the local community college as well assuring that compensation and the work environment are competitive.

Contacting the Health Center

The financial report is designed to provide our citizens, customers, and creditors with a general overview of The Health Center's finances and to demonstrate our accountability for the funds it receives. If you have any questions about this report or need additional information, please contact Kossuth Regional Health Center Administration at Kossuth Regional Health Center, 1515 South Phillips Street, Algona, Iowa, 50511.

KOSSUTH REGIONAL HEALTH CENTER
BALANCE SHEETS
JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 847,671	\$ 1,750,277
Investments	2,025,786	1,201,658
Receivables		
Patient, less allowance for uncollectible		
accounts of \$1,062,000 in 2006 and \$1,020,000 in 2005	2,329,558	2,171,244
Succeeding year property tax receivable	298,000	298,000
Other	207,680	16,437
Supplies	430,565	424,811
Prepaid expenses	407,060	88,996
	<u>6,546,320</u>	<u>5,951,423</u>
Total current assets		
ASSETS LIMITED AS TO USE OR RESTRICTED		
Internally designated for capital expenditures	2,076,116	2,201,166
Internally designated for hospice expenditures	151,271	154,801
Internally designated for health benefits	298,834	237,274
Restricted under debt agreement	223,233	219,945
	<u>2,749,454</u>	<u>2,813,186</u>
Total assets limited as to use or restricted		
CAPITAL ASSETS		
Land and construction in progress, not being depreciated	196,049	74,727
Other capital assets being depreciated	14,195,541	13,788,053
Less accumulated depreciation	<u>(8,968,682)</u>	<u>(8,434,483)</u>
	<u>5,422,908</u>	<u>5,428,297</u>
Net capital assets		
	<u>\$ 14,718,682</u>	<u>\$ 14,192,906</u>
Total assets		

	<u>2006</u>	<u>2005</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 113,815	\$ 158,370
Accounts payable	337,844	346,778
Accrued expenses		
Salaries and wages	313,537	328,332
Paid leave	402,685	381,639
Payroll taxes and employee benefits	6,066	4,381
Other	7,635	6,463
Accounts payable - related party	516,274	577,708
Estimated third-party payor settlements	187,839	391,588
Deferred revenue for succeeding year property tax receivable	<u>298,000</u>	<u>298,000</u>
Total current liabilities	2,183,695	2,493,259
 LONG-TERM DEBT, net of current maturities	 <u>451,496</u>	 <u>565,312</u>
Total liabilities	<u>2,635,191</u>	<u>3,058,571</u>
 NET ASSETS		
Invested in capital assets net of related debt	4,857,597	4,704,615
Restricted by debt agreement	223,233	219,945
Unrestricted	<u>7,002,661</u>	<u>6,209,775</u>
Total net assets	<u>12,083,491</u>	<u>11,134,335</u>
 Total liabilities and net assets	 <u>\$ 14,718,682</u>	 <u>\$ 14,192,906</u>

KOSSUTH REGIONAL HEALTH CENTER
BALANCE SHEETS –
KOSSUTH REGIONAL HEALTH CENTER FOUNDATION
DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 87,051	\$ 52,754
Accrued interest	1,126	-
Total current assets	88,177	52,754
NONCURRENT CASH AND INVESTMENTS	<u>1,434,445</u>	<u>1,337,093</u>
Total assets	<u><u>\$ 1,522,622</u></u>	<u><u>\$ 1,389,847</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Grants payable	\$ 4,170	\$ 4,360
NET ASSETS, unrestricted	<u>1,518,452</u>	<u>1,385,487</u>
Total liabilities and net assets	<u><u>\$ 1,522,622</u></u>	<u><u>\$ 1,389,847</u></u>

KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Net patient service revenue (net provision for bad debts of \$464,891 in 2006 and \$404,780 in 2005)	\$ 15,823,951	\$ 14,710,462
Other revenue	<u>2,394,239</u>	<u>1,339,864</u>
Total operating revenues	<u>18,218,190</u>	<u>16,050,326</u>
OPERATING EXPENSES		
Salaries and wages	5,898,729	5,469,547
Employee benefits	2,064,525	1,736,939
Professional fees	1,844,779	1,712,248
Utilities	234,939	196,467
Management, legal, and accounting fees	135,911	123,200
Insurance	228,067	152,723
Supplies and miscellaneous	6,219,989	4,915,627
Depreciation	744,561	814,780
Interest and amortization	<u>33,693</u>	<u>36,428</u>
Total operating expenses	<u>17,405,193</u>	<u>15,157,959</u>
OPERATING INCOME BEFORE AFFILIATION AGREEMENT	812,997	892,367
AFFILIATION AGREEMENT EXPENSE (NOTE 8)	<u>(406,499)</u>	<u>(446,184)</u>
INCOME FROM OPERATIONS	<u>406,498</u>	<u>446,183</u>
NONOPERATING REVENUES (EXPENSES)		
County tax revenue	298,761	299,683
Investment income	192,995	68,243
Dialysis unit rental income	10,083	10,833
Noncapital grants and contributions	40,327	159,614
Gain on sale of property and equipment	<u>492</u>	<u>1,070</u>
Total nonoperating revenues (expenses)	<u>542,658</u>	<u>539,443</u>
REVENUES IN EXCESS OF EXPENSES	949,156	985,626
Capital contributions and grants	<u>-</u>	<u>58,903</u>
INCREASE IN NET ASSETS	949,156	1,044,529
NET ASSETS, BEGINNING OF YEAR	<u>11,134,335</u>	<u>10,089,806</u>
NET ASSETS, END OF YEAR	<u><u>\$ 12,083,491</u></u>	<u><u>\$ 11,134,335</u></u>

KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS –
KOSSUTH REGIONAL HEALTH CENTER FOUNDATION
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
OPERATING REVENUES		
Contributions	\$ 86,198	\$ 96,556
Investment income	88,602	171,423
Total operating revenues	174,800	267,979
EXPENSES		
Fundraising	20,535	31,890
Contributions to Kossuth Regional Health Center	7,890	4,485
General and administrative	13,410	12,771
Total expenses	41,835	49,146
INCREASE IN UNRESTRICTED NET ASSETS	132,965	218,833
NET ASSETS, BEGINNING OF YEAR	1,385,487	1,166,654
NET ASSETS, END OF YEAR	\$ 1,518,452	\$ 1,385,487

KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Cash received from patients service revenues	\$ 14,996,997	\$ 14,895,622
Payments to employees	(7,954,146)	(7,081,951)
Payments to suppliers and other expenses	(8,999,479)	(7,171,625)
Other receipts and payments, net	<u>2,202,996</u>	<u>1,350,578</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>246,368</u>	<u>1,992,624</u>
NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants and contributions	40,327	159,614
Capital grants and contributions	-	58,903
Dialysis unit rental income	10,083	10,833
Tax appropriations	<u>298,761</u>	<u>299,683</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>349,171</u>	<u>529,033</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(742,940)	(401,900)
Proceeds from sale of property and equipment	482	1,328
Proceeds on note payable	-	50,000
Payments on long-term debt	(158,370)	(103,210)
Interest payments on long-term debt	<u>(33,693)</u>	<u>(36,428)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(934,521)</u>	<u>(490,210)</u>
INVESTING ACTIVITIES		
Investment income received	192,995	68,243
Increase in investments	(820,351)	(1,201,658)
Increase (decrease) in noncurrent cash and investments	<u>63,732</u>	<u>(387,478)</u>
NET CASH PROVIDED BY (USED BY) FINANCING ACTIVITIES	<u>(563,624)</u>	<u>(1,520,893)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	<u>(902,606)</u>	510,554
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,750,277</u>	<u>1,239,723</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 847,671</u>	<u>\$ 1,750,277</u>

KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS – PAGE 2
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 406,498	\$ 446,183
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Interest expense considered capital and related	33,693	36,428
Depreciation	744,561	814,780
Provision for bad debts	464,891	404,780
Changes in assets and liabilities		
Patient receivables	(623,205)	(641,923)
Third-party payor settlements receivable	-	30,715
Other receivables	(191,243)	27,434
Inventories	(5,754)	(212,295)
Prepaid expenses	(318,064)	75,180
Accounts payable	(8,934)	24,610
Accrued salaries, wages, benefits and other	9,108	138,246
Third-party payor settlements payable	(203,749)	391,588
Accounts payable - related	(61,434)	456,898
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 246,368</u>	<u>\$ 1,992,624</u>

KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
KOSSUTH REGIONAL HEALTH CENTER FOUNDATION
YEARS ENDED DECEMBER 30, 2005 AND 2004

	2005	2004
OPERATING ACTIVITIES		
Cash received from donors and contributors	\$ 86,198	\$ 96,556
Interest received	3,129	803
Cash paid to suppliers	(33,945)	(44,784)
Payments to Kossuth Regional Health Center	(8,080)	(130,490)
NET CASH FROM OPERATING ACTIVITIES	47,302	(77,915)
INVESTING ACTIVITIES		
Purchase of investments	(245,177)	(100,000)
Proceeds from sale of investments	232,172	175,543
NET CASH FROM INVESTING ACTIVITIES	(13,005)	75,543
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	34,297	(2,372)
CASH AND CASH EQUIVALENTS-BEGINNING	52,754	55,126
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 87,051	\$ 52,754
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 132,965	\$ 218,833
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Unrealized (gain) loss on investments	26,665	(119,865)
Realized (gain) loss on sale of investments	(87,714)	-
Reinvested capital gains and dividends on investments	(24,424)	(50,754)
Decrease in grants payable	(190)	(126,129)
NET CASH FROM OPERATING ACTIVITIES	\$ 47,302	\$ (77,915)

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Kossuth Regional Health Center (Health Center) consists of a 25-bed acute care hospital located in Algona, Iowa. It is organized under Chapter 347 of the Code of Iowa. The Health Center provides health care services under the name of Kossuth Regional Health Center in accordance with a Master Affiliation Agreement discussed further in Note 8. Services are provided to residents of Kossuth and surrounding counties in Iowa. The Health Center is exempt from income taxes as a political subdivision.

Reporting Entity

For financial reporting purposes, the Health Center has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The Health Center has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Health Center are such that exclusion would cause the Health Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Health Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Health Center.

Kossuth Regional Health Center Foundation (the Foundation) is a legally separate, tax-exempt component unit of the Health Center and has a year end of December 31. The Foundation's financial statements have been included as a discretely presented component unit. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Health Center in support of its operations and programs. The Health Center does not appoint a voting majority of the Foundation's Board of Directors or in any way impose its will over the Foundation. However, the Foundation is included as a discretely presented component unit due to the nature and significance of its relationship to the Health Center.

Basis of Presentation

The balance sheet displays the Health Center's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

NOTES TO FINANCIAL STATEMENTS

Basis of Accounting

The Health Center reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Health Center applies all applicable GASB pronouncements for proprietary funds, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less when purchased, excluding assets limited as to use and investments.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

NOTES TO FINANCIAL STATEMENTS

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

Supplies

Supplies are stated at lower of average cost or market.

Capital Assets

Land, buildings, and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Land, buildings, and equipment donated for Health Center operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of land, buildings, and equipment are as follows:

Land improvements	8-20 years
Buildings and fixed equipment	5-56 years
Major movable equipment	3-25 years

Donated Assets

Donated supplies; investments; and land, buildings, and equipment are recorded at fair value at date of donation, which then is treated as cost.

Compensated Absences

Health Center employees accumulate a limited amount of earned but unused paid leave hours for subsequent use or for payment upon termination, death, or retirement. The cost of paid leave is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006 and 2005.

NOTES TO FINANCIAL STATEMENTS

Assets Limited As to Use or Restricted

Assets limited as to use include assets which are board designated funds. Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Health Center for its stated purposes. Resources set aside for board designated purposes are not considered to be restricted. Contributions are reported in nonoperating revenue. Grants restricted for specific operating purposes are reported as other revenue.

Restricted Net Assets

Restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors, from unrestricted net assets on which donors or grantors place no restriction or which arise as a result of the operations of the Health Center for its stated purpose.

Operating Revenues and Expenses

The Health Center's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from transactions associated with providing health care services – the Health Center's principal activity. Other revenues, including interest income, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including financing costs.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources

When the Health Center has both restricted and unrestricted resources available to finance a particular program, it is the Health Center's policy to use restricted resources before unrestricted resources.

NOTES TO FINANCIAL STATEMENTS

Charity Care

To fulfill its mission of community service, the Health Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Patient and service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Advertising Costs

The Health Center expenses advertising costs as incurred.

County Tax Revenue

Taxes are included in nonoperating revenues when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

Reclassifications

Certain prior period amounts within the accompanying financial statements have been reclassified for comparability. The reclassifications have no effect on the previously reported net income or equity.

NOTE 2 - CHARITY CARE

The Health Center maintains records to identify and monitor the level of charity care it provides. The amounts of charges foregone for services and supplies furnished under its charity care policy during the years ended June 30, 2006 and 2005, was \$46,467 and \$54,938.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - NET PATIENT SERVICE REVENUE

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

The Health Center is licensed as a Critical Access Health Center (CAH). The Health Center is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Health Center and are subject to audits thereof by the Medicare fiscal intermediary. The Health Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2004. The Health Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Health Center.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicaid fiscal intermediary. The Health Center's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2003.

Other Payors

The Health Center has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Revenue from the Medicare and Medicaid programs accounted for approximately 57% and 8%, respectively, of the Health Center's net patient service revenue for the year ended 2006, and 57% and 7%, respectively, of the Health Center's net patient service revenue, for the year ended 2005. Percentages are calculated utilizing the hospital data only.

NOTES TO FINANCIAL STATEMENTS

A summary of patient service revenue, contractual adjustments, and provision for bad debts is as follows for the years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Total patient service revenue	\$ 22,779,965	\$ 21,106,074
Contractual adjustments		
Medicare	4,108,184	3,762,587
Medicaid	681,509	509,562
Other	<u>1,701,430</u>	<u>1,718,683</u>
Total contractual adjustments	<u>6,491,123</u>	<u>5,990,832</u>
Net patient service revenue	16,288,842	15,115,242
Provision for bad debts	<u>(464,891)</u>	<u>(404,780)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 15,823,951</u>	<u>\$ 14,710,462</u>

Concentration of Credit Risk

The Health Center grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and others at June 30, 2006 and 2005, was as follows:

	<u>2006</u>	<u>2005</u>
Medicare	34.1%	41.0%
Medicaid	6.4%	8.9%
Blue Cross	14.1%	12.3%
Other third-party payors and patients	<u>45.4%</u>	<u>37.8%</u>
	<u>100.0%</u>	<u>100.0%</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - DEPOSITS AND INVESTMENTS

The Health Center's deposits in banks at June 30, 2006 and 2005, were entirely covered by Federal Depository Insurance, or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Health Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The Health Center's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Health Center. Maturities are consistent with this policy.

NOTE 5 - CAPITAL ASSETS

Summaries of capital assets at June 30, 2006 and 2005, are as follows:

	June 30, 2005			June 30, 2006
	Balance	Additions	Deductions	Balance
Cost				
Land and land improvements	\$ 526,301	\$ -	\$ -	\$ 526,301
Buildings	6,474,078	5,212	-	6,479,290
Fixed equipment	2,516,722	9,659	-	2,526,381
Major movable equipment	4,309,917	602,990	(210,373)	4,702,534
Construction in process	35,762	125,079	(3,757)	157,084
Total	13,862,780	742,940	(214,130)	14,391,590
Accumulated depreciation				
Land improvements	307,165	25,076	-	332,241
Buildings	2,930,558	253,965	-	3,184,523
Fixed equipment	1,968,303	142,903	-	2,111,206
Major movable equipment	3,228,457	322,617	(210,362)	3,340,712
Total	8,434,483	744,561	(210,362)	8,968,682
Capital assets, net	\$ 5,428,297			\$ 5,422,908

NOTES TO FINANCIAL STATEMENTS

Construction in progress at June 30, 2006, consists of costs incurred for the Master Facility Plan update, which are renovations of various sections in the Health Center.

	June 30, 2004			June 30, 2005
	Balance	Additions	Deductions	Balance
Cost				
Land and land improvements	\$ 514,038	\$ 12,263	\$ -	\$ 526,301
Buildings	6,313,688	161,680	(1,290)	6,474,078
Fixed equipment	2,459,957	56,765	-	2,516,722
Major movable equipment	4,225,184	154,929	(70,196)	4,309,917
Construction in process	19,499	177,944	(161,681)	35,762
Total	13,532,366	563,581	(233,167)	13,862,780
Accumulated depreciation				
Land improvements	273,192	33,973	-	307,165
Buildings	2,674,350	257,498	(1,290)	2,930,558
Fixed equipment	1,756,635	211,668	-	1,968,303
Major movable equipment	2,986,754	311,641	(69,938)	3,228,457
Total	7,690,931	814,780	(71,228)	8,434,483
Capital assets, net	<u>\$ 5,841,435</u>			<u>\$ 5,428,297</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT

A schedule of changes in long-term debt for 2006 and 2005, is as follows:

	June 30, 2005 Balance	Additions	Payments	June 30, 2006 Balance	Amounts Due Within One Year
Promissory note payable	\$ 50,000	\$ -	\$ (10,000)	\$ 40,000	\$ 10,000
Hospital revenue note	623,682	-	(98,371)	525,311	103,815
Pharmacy note payable	50,000	-	(50,000)	-	-
Total long-term debt	<u>\$ 723,682</u>	<u>\$ -</u>	<u>\$ (158,371)</u>	<u>\$ 565,311</u>	<u>\$ 113,815</u>

	June 30, 2004 Balance	Additions	Payments	June 30, 2005 Balance	Amounts Due Within One Year
Promissory note payable	\$ 60,000	\$ -	\$ (10,000)	\$ 50,000	\$ 10,000
Hospital revenue note	716,892	-	(93,210)	623,682	98,370
Pharmacy note payable	-	50,000	-	50,000	50,000
Total long-term debt	<u>\$ 776,892</u>	<u>\$ 50,000</u>	<u>\$ (103,210)</u>	<u>\$ 723,682</u>	<u>\$ 158,370</u>

Promissory Note Payable

On March 1, 2000 the Health Center entered into a promissory note payable agreement with Humboldt County Rural Electric Cooperative. The note provided for the Health Center to receive \$100,000 to be used in the operating suite renovation project. The note is a non-interest bearing note and calls for the repayment of principal in 10 annual installments beginning on March 1, 2001.

Hospital Revenue Note

On March 1, 2000 the Health Center entered into an agreement with Iowa State Bank, Algona, Iowa for the issuance of \$1,000,000 Hospital Revenue Note. The net proceeds from the note were used to fund the Health Center's operating suite renovation project. Beginning on February 1, 2001 and continuing through January 1, 2011, principal and interest is due the first of each month at the 5.4% interest. The note is collateralized by the revenues of the Health Center.

Pharmacy Note Payable

The Health Center obtained financing for a portion of the retail pharmacy constructed during the year ended June 30, 2005. The note payable was paid during fiscal 2006. The note payable was unsecured and had an interest rate at 5.0%.

NOTES TO FINANCIAL STATEMENTS

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

Year Ending June 30,	Long-term Debt	
	Principal	Interest
2007	\$ 113,815	\$ 25,822
2008	119,562	20,078
2009	125,627	14,011
2010	132,028	7,610
2011	74,279	1,343
	<u>\$ 565,311</u>	<u>\$ 68,864</u>

NOTE 7 - PENSION AND RETIREMENT BENEFITS

The Health Center contributes to the Iowa Public Employees Retirement Center (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Health Center is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005, and 2004. Contribution requirements are established by State statute. The Health Center's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004, were approximately \$330,100 \$306,600 and \$271,700, respectively, equal to the required contributions for each year.

NOTE 8 - RELATED ORGANIZATIONS

Master Affiliation Agreement

The Health Center has a Master Affiliation Agreement with Mercy Health Center – North Iowa (MMC-NI) to provide hospital, physician, and other health care services in Kossuth and surrounding counties in north central Iowa. As a part of this Master Affiliation Agreement, the Health Center entered into a Professional Service Agreement with MMC-NI whereby MMC-NI provides professional medical services for the Health Center. Amounts paid to MMC-NI for the provision of these services amounted to \$2,588,264 and \$2,168,482 for the years ended June 30, 2006 and 2005.

Operating gains and losses from the consolidated operation of Health Center and MMC-NI services are shared equally in accordance with the formulas outlined in the Master Affiliation Agreement. Total operating gains to be allocated to MMC-NI amounted to \$406,499 and \$446,184, respectively, for the years ended June 30, 2006 and 2005, for the various services and distributions related to these agreements.

NOTES TO FINANCIAL STATEMENTS

Management Services

The Health Center has a contractual arrangement with MMC-NI under which MMC-NI provides administrative staff, management consultation, and other services to the Health Center. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Health Center. Expenses of the administrative and management services for the years ended June 30, 2006 and 2005, were \$490,800 and \$471,600, respectively.

Due to and from Affiliated Organization

As of June 30, 2006 and 2005, the Health Center's records reflect an amount due to MMC-NI of \$516,274 and \$577,708, respectively, for the various services and distributions related to these agreements.

Other Related Organizations

Auxiliary

The Kossuth County Hospital Auxiliary was established to advance and to promote the welfare of Kossuth Regional Health Center through ways and means approved by the Board of Directors of the Health Center auxiliary and endorsed by the Health Center administrator. The Auxiliary's unrestricted resources, are distributed to the Health Center in amounts and in periods determined by the Auxiliary's Board of Directors. During the years ended June 30, 2006 and 2005, the following distributions were made to the Health Center:

	<u>2006</u>	<u>2005</u>
Distributed to Health Center for property additions	<u>\$ 18,747</u>	<u>\$ 5,500</u>

Foundation

The Kossuth County Hospital Foundation was established to solicit funds and make contributions to the Kossuth Regional Health Center. The Foundation made contributions to the Health Center during the years ended June 30, 2006 and 2005, of \$0 and \$134,974, respectively.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Health Center Risk Management

The Health Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant reduction in insurance coverage from the previous year in any of the Health Center's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The Health Center's employees participate in a self-funded health plan (Plan). The amounts payable from the Plan at June 30, 2006 and 2005 total \$185,614 and \$210,090, respectively, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on estimates of the amounts necessary to pay current year claims. The Plan has purchased stop loss coverage.

NOTES TO FINANCIAL STATEMENTS

Malpractice Insurance

The Health Center has insurance coverage to provide protection for professional liability losses on a claims made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with imposition of significant fines and penalties, as well as significant repayments for patient service previously billed.

Management believes the Health Center is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations are subject to government review and interpretation, as well as regulator actions unknown or unasserted at this time.

KOSSUTH REGIONAL HEALTH CENTER
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS AND NOTES - BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2006

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 298,761	\$ -	\$ 298,761	\$ 298,000	\$ 761
Estimated other revenues/ receipts	18,462,087	(1,018,207)	17,443,880	18,149,575	(705,695)
	<u>18,760,848</u>	<u>(1,018,207)</u>	<u>17,742,641</u>	<u>18,447,575</u>	<u>(704,934)</u>
Expenses/disbursements	<u>17,811,692</u>	<u>76,936</u>	<u>17,888,628</u>	<u>18,209,144</u>	<u>320,516</u>
Net	949,156	(1,095,143)	(145,987)	238,431	(384,418)
Balance beginning of year	<u>11,134,335</u>	<u>(5,369,214)</u>	<u>5,765,121</u>	<u>5,500,156</u>	<u>264,965</u>
Balance end of year	<u><u>\$12,083,491</u></u>	<u><u>\$ (6,464,357)</u></u>	<u><u>\$ 5,619,134</u></u>	<u><u>\$ 5,738,587</u></u>	<u><u>\$ (119,453)</u></u>

NOTE 1

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health Center on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The budget was amended during the year ended June 30, 2006.



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Trustees
Kossuth Regional Health Center
Algona, Iowa

Our audit was performed for the purpose of forming an opinion on the 2006 basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information except for the schedule of comparative statistics on page 42 marked "unaudited" has been subjected to the auditing procedures applied in the audit of the 2006 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The 2005 supplementary information has been subjected to auditing procedures by other auditors applied in their audit of the 2005 basic financial statements and, in their opinion, was fairly stated in relation to the 2005 basic financial statements taken as a whole.

Minneapolis, Minnesota
August 10, 2006

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KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2006 AND 2005

	TOTAL	
	2006	2005
PATIENT CARE SERVICES		
Medical and surgical	\$ 1,127,657	\$ 1,131,933
Intensive care unit	26,304	66,834
Swing-bed	261,987	245,857
Intermediate care	3,875	6,092
Nursery	97,835	91,228
Total	<u>1,517,658</u>	<u>1,541,944</u>
OTHER PROFESSIONAL SERVICES		
Operating room	1,640,384	1,721,001
Labor and delivery room	61,982	55,168
Anesthesiology	685,231	736,097
Radiology	1,656,029	1,488,851
Laboratory	2,717,941	2,227,109
Respiratory therapy	125,021	131,677
Cardiac rehabilitation	119,895	117,820
Physical therapy	1,015,285	754,903
Occupational therapy	230,781	190,385
Speech therapy	14,877	19,405
Electrocardiology	1,134	624
Scans	2,338,936	2,206,026
Medical and surgical supplies	698,753	702,882
Pharmacy	1,734,877	1,635,614
Intravenous therapy	444,384	484,580
Clinics	5,752,807	5,239,403
Emergency room	783,233	727,276
Home health	49,983	44,118
Hospice	1,209,981	1,116,189
Immunizations	6,392	5,704
Diabetic education	20,868	14,236
Total	<u>21,308,774</u>	<u>19,619,068</u>
Total	22,826,432	21,161,012
Charity Care	<u>(46,467)</u>	<u>(54,938)</u>
Total patient service revenues	22,779,965	21,106,074
Adjustments to patient service revenues	<u>(6,956,014)</u>	<u>(6,395,612)</u>
NET PATIENT SERVICES	<u>\$ 15,823,951</u>	<u>\$ 14,710,462</u>

INPATIENT		OUTPATIENT	
2006	2005	2006	2005
\$ 1,044,782	\$ 1,062,597	\$ 82,875	\$ 69,336
27,126	66,834	(822)	-
261,987	245,857	-	-
3,875	6,092	-	-
97,835	91,228	-	-
1,435,605	1,472,608	82,053	69,336
221,895	270,533	1,418,489	1,450,468
61,982	55,168	-	-
207,026	243,519	478,205	492,578
95,238	106,228	1,560,791	1,382,623
469,647	455,366	2,248,294	1,771,743
119,491	126,707	5,530	4,970
620	1,970	119,275	115,850
232,320	205,873	782,965	549,030
119,798	111,964	110,983	78,421
2,862	2,436	12,015	16,969
1,134	624	-	-
205,749	222,068	2,133,187	1,983,958
223,802	261,390	474,951	441,492
627,851	599,322	1,107,026	1,036,292
239,417	295,564	204,967	189,016
-	-	5,752,807	5,239,403
27,224	26,862	756,009	700,414
-	-	49,983	44,118
66,852	81,807	1,143,129	1,034,382
-	-	6,392	5,704
-	-	20,868	14,236
2,922,908	3,067,401	18,385,866	16,551,667
\$ 4,358,513	\$ 4,540,009	\$ 18,467,919	\$ 16,621,003

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF ADJUSTMENTS OF PATIENT SERVICE REVENUES AND OTHER REVENUES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ADJUSTMENTS TO PATIENT AND RESIDENT SERVICE REVENUE		
Contractual adjustments - Medicare	\$ 4,108,184	\$ 3,762,587
Contractual adjustments - Medicaid	681,509	509,562
Provision for bad debts	464,891	404,780
Other allowances and adjustments	<u>1,701,430</u>	<u>1,718,683</u>
TOTAL ADJUSTMENTS	<u>\$ 6,956,014</u>	<u>\$ 6,395,612</u>
OTHER REVENUES		
Meals on Wheels	\$ 27,514	\$ 29,278
Prisoner meals	57,447	46,488
Cafeteria	39,177	38,876
Medical records fees	3,174	2,458
Rental income	88,179	95,347
Senior services	80,612	55,653
Grants	432,394	365,030
Retail pharmacy	1,650,001	688,824
Miscellaneous	<u>15,741</u>	<u>17,910</u>
TOTAL OTHER OPERATING REVENUES	<u>\$ 2,394,239</u>	<u>\$ 1,339,864</u>

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
DELIVERY AND LABOR ROOMS		
Salaries and wages	\$ 20,650	\$ 12,233
Other	5,365	4,914
	<u>26,015</u>	<u>17,147</u>
NURSERY		
Salaries and wages	10,563	12,180
Other	2,548	1,651
	<u>13,111</u>	<u>13,831</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	258,929	250,267
Other	132,779	130,820
	<u>391,708</u>	<u>381,087</u>
EMERGENCY SERVICES		
Salaries and wages	156,549	184,728
Other	419,868	395,524
	<u>576,417</u>	<u>580,252</u>
MEDICAL AND SURGICAL SUPPLIES		
Other	<u>145,421</u>	<u>140,791</u>
RESPIRATORY THERAPY		
Salaries and wages	8,078	7,639
Other	44,253	48,964
	<u>52,331</u>	<u>56,603</u>
LABORATORY		
Salaries and wages	264,562	243,013
Other	373,454	356,196
	<u>638,016</u>	<u>599,209</u>
RADIOLOGY		
Salaries and wages	241,645	219,136
Other	179,482	109,290
	<u>421,127</u>	<u>328,426</u>
PHARMACY AND INTRAVENOUS THERAPY		
Salaries and wages	175	1,151
Other	565,677	590,810
	<u>565,852</u>	<u>591,961</u>
ANESTHESIOLOGY		
Other	<u>288,702</u>	<u>308,252</u>
PHYSICAL THERAPY		
Salaries and wages	102,000	85,214
Other	296,917	232,584
	<u>398,917</u>	<u>317,798</u>

SCHEDULES OF OPERATING EXPENSES – PAGE 2

	2006	2005
CARDIAC REHABILITATION		
Salaries and wages	\$ 7,231	\$ 6,700
Other	27,688	29,794
	<u>34,919</u>	<u>36,494</u>
OCCUPATIONAL THERAPY		
Salaries and wages	102,834	88,081
Other	5,249	3,846
	<u>108,083</u>	<u>91,927</u>
SPEECH PATHOLOGY		
Other	<u>10,441</u>	<u>14,688</u>
HOME HEALTH		
Salaries and wages	759,348	698,348
Other	277,637	232,195
	<u>1,036,985</u>	<u>930,543</u>
MEDICAL RECORDS		
Salaries and wages	184,141	186,766
Other	56,385	25,868
	<u>240,526</u>	<u>212,634</u>
DIETARY		
Salaries and wages	174,652	160,873
Other	114,060	116,783
	<u>288,712</u>	<u>277,656</u>
OPERATION OF PLANT		
Salaries and wages	142,033	120,455
Other	296,627	251,197
	<u>438,660</u>	<u>371,652</u>
HOUSEKEEPING		
Salaries and wages	127,994	115,449
Other	22,252	20,210
	<u>150,246</u>	<u>135,659</u>
LAUNDRY AND LINEN		
Other	<u>65,948</u>	<u>58,328</u>
ADULTS AND PEDIATRICS		
Salaries and wages	1,032,492	960,249
Other	93,537	120,479
	<u>1,126,029</u>	<u>1,080,728</u>
BLOOD		
Salaries and wages	17,576	17,969
Other	98,086	78,821
	<u>115,662</u>	<u>96,790</u>

(continued on next page)

SCHEDULES OF OPERATING EXPENSES – PAGE 3

	2006	2005
ELECTROCARDIOLOGY		
Salaries and wages	\$ 4,811	\$ 4,283
Other	1,122	2,395
	<u>5,933</u>	<u>6,678</u>
SCANS		
Salaries and wages	7,654	14,311
Other	404,260	394,931
	<u>411,914</u>	<u>409,242</u>
HOSPICE		
Salaries and wages	116,667	104,522
Other	80,196	66,809
	<u>196,863</u>	<u>171,331</u>
RETAIL PHARMACY		
Salaries and wages	197,263	152,984
Other	1,427,383	599,732
	<u>1,624,646</u>	<u>752,716</u>
REJUVENATION CLINIC		
Salaries and wages	524	120
Other	4,172	7,009
	<u>4,696</u>	<u>7,129</u>
CLINICS		
Salaries and wages	1,358,765	1,267,036
Other	2,344,004	1,912,125
	<u>3,702,769</u>	<u>3,179,161</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	601,593	555,840
Other	880,172	831,548
	<u>1,481,765</u>	<u>1,387,388</u>
UNASSIGNED EXPENSES		
Depreciation	744,561	814,780
Interest and amortization	33,693	36,428
Employee benefits	2,064,525	1,750,650
	<u>2,842,779</u>	<u>2,601,858</u>
TOTAL OPERATING EXPENSES	<u>\$ 17,405,193</u>	<u>\$ 15,157,959</u>

KOSSUTH REGIONAL HEALTH CENTER
PATIENTS' RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
JUNE 30, 2006 AND 2005

ANALYSIS OF AGING				
Age of Accounts	2006		2005	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 1,916,731	56.52%	\$ 1,674,041	52.46%
31 to 60 days	511,444	15.08%	650,245	20.38%
61 to 90 days	313,539	9.24%	236,752	7.42%
91 days and over	649,738	19.16%	629,996	19.74%
	<u>3,391,452</u>	<u>100.00%</u>	<u>3,191,034</u>	<u>100.00%</u>
Less: Allowance for doubtful accounts	402,169		363,555	
Allowance for contractual adjustments	659,725		656,235	
Net	<u>\$ 2,329,558</u>		<u>\$ 2,171,244</u>	
Net patient service revenue per calendar day - excluding bad debt	<u>\$ 43,353</u>		<u>\$ 40,303</u>	
Days of net revenue in net accounts receivable at year end	<u>54</u>		<u>54</u>	

ANALYSIS OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

	2006		2005	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning balance	\$ 363,555		\$ 287,426	
Add:				
Provision for bad debts	464,891	2.94%	404,780	2.75%
Recoveries previously written off	156,577	0.99%	140,294	0.95%
	<u>621,468</u>		<u>545,074</u>	
Less:				
Accounts written off	<u>(582,854)</u>	3.68%	<u>(468,945)</u>	3.19%
Ending balance	<u>\$ 402,169</u>		<u>\$ 363,555</u>	

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF SUPPLIES AND PREPAID EXPENSES
JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
SUPPLIES		
Central supply	\$ 76,318	\$ 64,733
Pharmacy	31,399	33,799
Retail pharmacy	203,162	187,146
Other departments	93,857	114,861
Clinics	25,829	24,272
	<u> </u>	<u> </u>
Total supplies	<u>\$ 430,565</u>	<u>\$ 424,811</u>
 PREPAID EXPENSES		
Insurance	\$ 105,869	\$ 49,147
Other	301,191	39,849
	<u> </u>	<u> </u>
Total prepaid expenses	<u>\$ 407,060</u>	<u>\$ 88,996</u>

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF COMPARATIVE STATISTICS
YEARS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)

	2006	2005
PATIENT DAYS		
Acute	1,940	2,080
Swing-bed	1,031	1,005
Newborn	225	214
Totals	3,196	3,299
ADMISSIONS		
Acute	624	624
Swing-bed	123	144
Totals	747	768
DISCHARGES		
Acute	625	623
Swing-bed	123	143
Totals	748	766
ACUTE AVERAGE LENGTH OF STAY	3.1	3.3
SWING-BED AVERAGE LENGTH OF STAY	8.4	7.0
ACUTE BEDS	25	25
PERCENTAGE OF OCCUPANCY		
Acute, based on 25 beds	21.26%	22.79%



CPAs & BUSINESS ADVISORS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
Kossuth Regional Health Center
Algona, Iowa

We have audited the accompanying balance sheet of **Kossuth Regional Health Center** as of June 30, 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Kossuth Regional Health Center's** internal control over financial reporting, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of **Kossuth Regional Health Center** are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of **Kossuth Regional Health Center** and other parties to whom **Kossuth Regional Health Center**, may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of **Kossuth Regional Health Center**, during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Minneapolis, Minnesota
August 10, 2006

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements:

NONE

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-06 Certified Budget – Health Center disbursements during the year ended June 30, 2006, did not exceed amounts budgeted.
- II-B-06 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.
- II-D-06 Business Transactions – We noted no material business transactions between the Health Center and Health Center officials and/or employees.
- II-E-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-06 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Health Center's investment policy were noted.
- II-G-06 Publication of Bills Allowed and Salaries – The Health Center is organized under Chapter 347A and is not required to follow this section of the Iowa Code.